

South Carolina Retirement SYSTEMS UPDATE

Fall 2004

25th Anniversary Edition

From the Director

Peggy G. Boykin, CPA



Saving Active Members Millions

The South Carolina Retirement Systems has long offered an Installment Service Purchase program through which active members may purchase service credit. This program allows active members to pay for their service purchase over time, using after-tax dollars, rather than having to make a lump-sum payment. A recent ruling by the Internal Revenue Service, however, now permits such payments to be remitted on a pre-tax basis.



At its August 12, 2004, meeting, the State Budget and Control Board approved the Retirement Systems' request to implement a pre-tax Installment Service Purchase program effective January 1, 2005.

The pre-tax Installment Service Purchase program will save our active members millions of dollars by allow-

Continued on Page 2

Investment Update

As of June 30, 2004, the South Carolina Retirement Systems' net assets totaled \$23.8 billion, up from \$22.4 billion as of June 30, 2003. This growth was spurred by the healthy performance of the Retirement Systems' investment portfolio for fiscal year 2004 (July 1, 2003, through June 30, 2004).

The Retirement Systems' portfolio had an investment return of 8.76 percent for fiscal year 2004. The Retirement Systems' actuary assumes



a 7.25 percent return as a part of the annual actuarial valuations it conducts of the four defined benefit plans administered by the Retirement Systems, so the 1.51 percent gain will have a positive impact.

The Retirement Systems' portfolio is carefully and conservatively constructed to ensure the financial integrity of its assets while optimizing the potential for a sound return on investment. Likewise, the portfolio is structured to reflect the Retirement Systems' strategy of investing for the long term. As a result, the portfolio is able to withstand periods of volatility in the financial markets.

Sixty percent of the Retirement Systems' assets are invested in fixed

Continued on Page 2

Active Member Edition

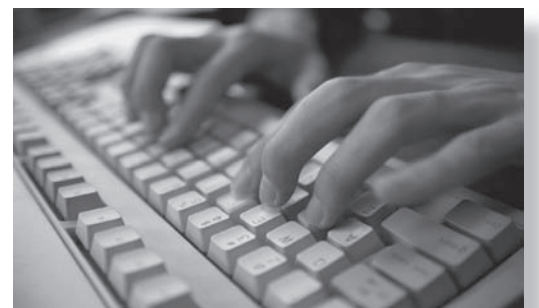
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Protecting Your Identity

The Retirement Systems understands the importance of protecting your identity. In fact, the Retirement Systems began crossing out the first five digits of members' Social Security numbers on all outgoing correspondence effective July 1, 2004, to help protect your identity.

Visitors to our office will also notice that they are asked for only the last four digits of their Social Security number. We will soon implement this change in our Customer Services Call Center as well.

We hope these steps will help keep your identity safe while allowing us to continue to provide the high level of service to which you are entitled and have become accustomed.



Installment Service Purchase Program Rate Changes

The interest rate for the Installment Service Purchase program dropped to 6 percent effective July 1, 2004. The 6 percent rate applies to new accounts activated July 1, 2004, through June 30, 2005.

The Installment Service Purchase program allows active contributing members to establish eligible service credit through installment payments. For more information, contact, Customer Services, at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov.

About this Issue

This issue of *Systems Update* marks the 25th year of the newsletter's publication. Each year, we strive to make *Systems Update* more meaningful to you. Please let us know if we are, or are not, reaching that goal.

Saving Members Millions

Continued from Page 1

ing them to make their payroll-deducted installment payments on a pre-tax basis. Making an installment service purchase with pre-tax dollars will reduce a member's cost to purchase service by about 20 percent.

In addition to new purchases made on or after January 1, 2005, any active member who is already making payments through payroll deduction will be given an opportunity to take advantage of the pre-tax treatment of payments. Current Installment Service Purchase program participants will receive forms later this year allowing them to switch to pre-tax payments.

Implementation of pre-tax payments for service purchases could save an estimated \$4.7 million in the cost of buying service for the more than 2,000 state and local government employees currently making after-tax payments through payroll deduction. At present, there are \$23 million in outstanding service purchase notes.

It is with great pleasure that we implement this change. We thank the members of the State Budget and Control Board for authorizing the Retirement Systems to proceed with the establishment of a program to accommodate pre-tax service purchases.

If you are interested in purchasing service, please contact us at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov.



Mandatory Direct Deposit

Members who retire on or after July 1, 2004, must sign up for direct deposit of their retirement annuity. This measure is being taken to further ensure the security of your annuity.

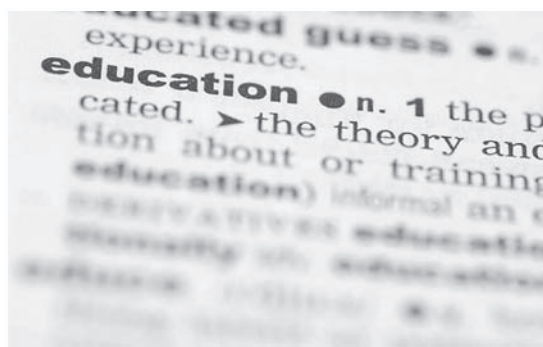
If you do not have a bank account into which your annuity may be directly deposited, you may send us a written request for an exemption.

Investment Update

Continued from Page 1

income securities, which provide a certain measure of asset protection. The remaining 40 percent is invested in equities, or stocks, which do not have similar asset protection features but generally yield much higher returns. The Office of the State Treasurer manages the Retirement Systems' fixed income portfolio and the State Retirement Systems Investment Panel oversees the equity portfolio.

Because the Retirement Systems invests in both fixed income and equity investments, it is better able to take advantage of the cyclical changes in both of these financial markets and more capable of avoiding significant losses as a result of market instability. The Retirement Systems further diversifies the portfolio through thoughtful asset allocation within both the fixed income and equity portions of the portfolio, all of which support investing for the long term.



Demystifying Definitions

Since pension talk can be as obtuse as an unknown foreign language at times, we thought we would periodically share some definitions of pension related terms.

Actuary A professionally trained individual who mathematically analyzes and estimates the amount of contributions required to pay the future benefits of a pension plan.

Annuity A plan that provides for the accumulation of contributions and a guaranteed income paid at regular intervals, usually monthly, for a specified period of time or for life. *We often refer to your retirement benefit as your annuity.*

Reduction Factor A number derived from actuarial group annuity mortality tables and based on the age of a member and the ages of a member's beneficiaries as of the member's date of retirement.

Kudos

Retirement Systems Earns 17th GFOA Certificate of Achievement

The South Carolina Retirement Systems earned its 17th consecutive Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada.

The Retirement Systems received the award for its *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2003.

The award-winning *CAFR* may be viewed and/or downloaded from our Internet Web site at www.retirement.sc.gov.



Systems' First PAFR Also Earns GFOA Certificate

The South Carolina Retirement Systems' first *Popular Annual Financial Report (PAFR)* received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada.

The *PAFR* was produced for the first time for the fiscal year ended June 30, 2003. It may be viewed and/or downloaded at www.retirement.sc.gov.

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